METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

NASHVILLE, TENNESSEE

ANNUAL FINANCIAL REPORT AND OTHER FINANCIAL INFORMATION

SEPTEMBER 30, 2014

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

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INTRODUCTION

The Metropolitan Housing and Development Agency ("MDHA" or the "Agency") is pleased to present its Annual Financial Report and Other Financial Information for the year ended September 30, 2014.

Responsibility and Controls

MDHA has prepared and is responsible for the financial statements and related information included in this report. A system of internal accounting control is maintained to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions. Limitations exist in any system of internal control. However, based on recognition that the cost of the system should not exceed its benefits, management believes its system of internal accounting control maintains an appropriate cost/benefit relationship.

MDHA's system of internal accounting control is evaluated on an ongoing basis by internal financial staff. Mountjoy Chilton Medley LLP, external auditors, also consider certain elements of the internal control system in order to determine auditing procedures for the purpose of expressing an opinion on the financial statements.

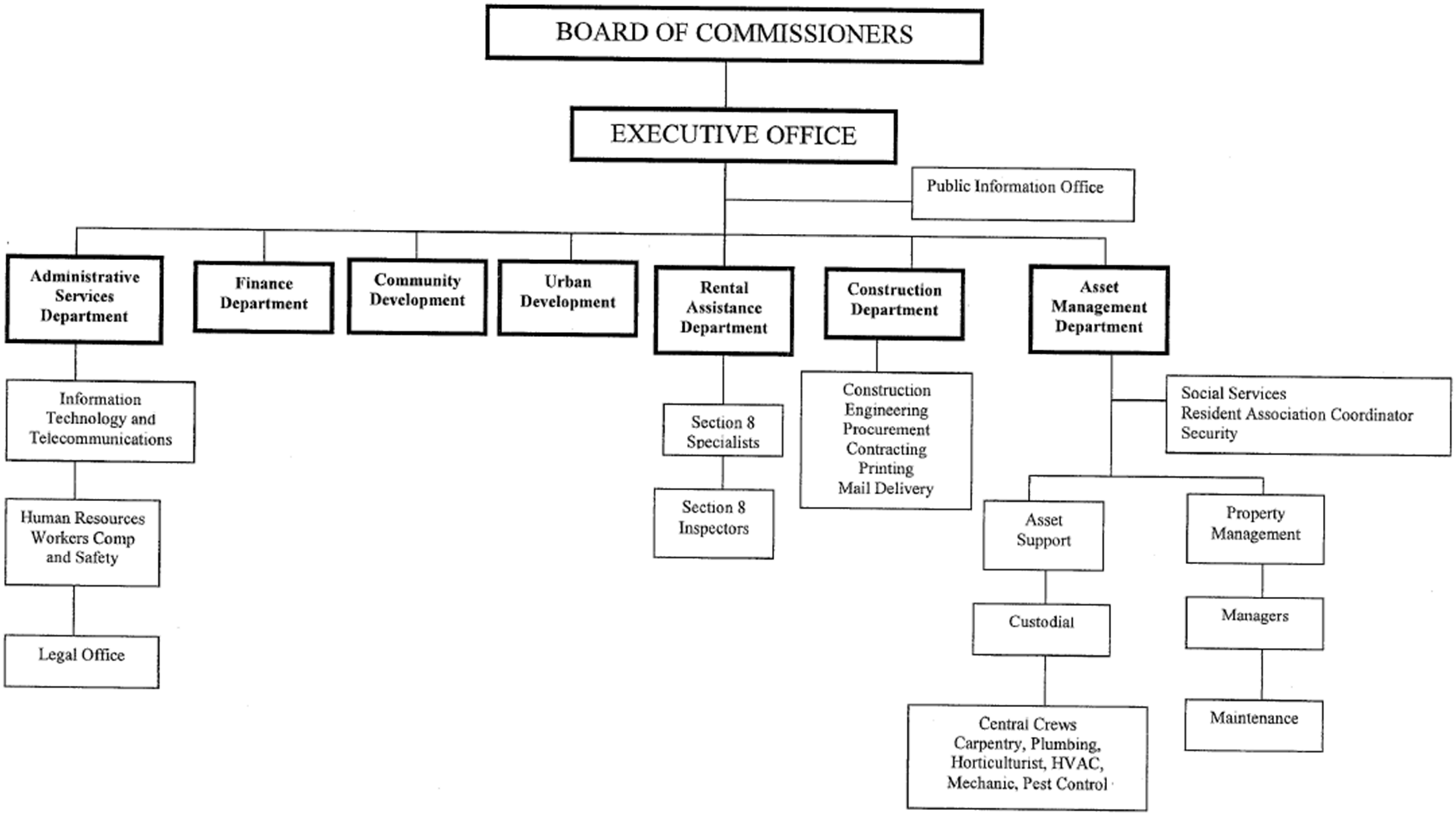
Management believes that its policies and procedures provide guidance and reasonable assurance that MDHA's operations are conducted according to management's intentions and to a high standard of business ethics. In management's opinion, the financial statements present fairly, in all material respects, the financial position of MDHA as of September 30, 2014, and the changes in financial position and cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

Audit Assurance

The unmodified opinion of the independent external auditors, Mountjoy Chilton Medley LLP, on the September 30, 2014, financial statements is included in this report.

ORGANIZATIONAL CHART

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY



METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

BOARD OF COMMISSIONERS

September 30, 2014

Ralph Mosley, Chair
Jimmy Granbery Vice Chair for Development
Melvin C. Black, Vice Chair for Housing
Miniimah Basheer, Commissioner
Antoinette Batts, Commissioner
Anna Page, Commissioner
Gif Thornton, Commissioner

CPAs & ADVISORS

Independent Auditor's Report

Board of Commissioners
Metropolitan Development and Housing Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the Metropolitan Development and Housing Agency (the "Agency"), a component unit of Metropolitan Government of Nashville and Davidson County, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Ohio

Independent Auditor's Report (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of September 30, 2014, and its changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis, and is not a required part of the basic financial statements. In addition, the accompanying schedule of actual costs for the specified project from inception of the project through completion is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the financial statements as a whole.

Independent Auditor's Report (Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2015, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Monroe Shine Chilton Medley LLP

Jeffersonville, Indiana
January 20, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Metropolitan Development and Housing Agency's ("MDHA" or the "Agency") annual financial report presents management's discussion and analysis of the Agency's financial performance during the fiscal years ended September 30, 2014 and 2013. Please read this analysis in conjunction with the Agency's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

Fiscal year 2014:

The Agency's total net position decreased $3.6 million or -1.1%, in part as a result of the following:

- Cash and Investments increased $13.4 million (+23.3%)
- Notes Receivable decreased $53.7 million (-60.7%)
- Bonds, Notes and Other Liabilities decreased $36.3 million (-42.3%)
- Operating Revenues increased $12.9 million (+13.0%)
- Operating Expenses increased $15.9 million (+15.1%)
- Operating Loss increased $3 million (+48.1 %)
- Governmental Capital Contributions decreased $1.6 million (-18.1%)

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual financial report consists of two parts: management's discussion and analysis and the basic financial statements. The financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows and notes to the financial statements. The statement of net position provides a record or snapshot of the assets and liabilities at the close of the fiscal year. It presents the financial position of the Agency on a full accrual historical cost basis. The statement of revenues, expenses and changes in net position presents the results of the business activities over the course of the fiscal year. The statement of cash flows is related to the other financial statements by the way it links changes in assets and liabilities to the effects on cash and cash equivalents over the course of the fiscal year. The notes to the financial statements provide useful information regarding the Agency's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies and subsequent events.

The Agency is supported by rentals, fees, and federal and state grants and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the activities and operations of the Agency. While detailed sub-fund information is not presented, separate accounts are maintained for each program of the Agency to control and manage money for particular purposes or to demonstrate that the Agency is properly using specific grants.

FINANCIAL ANALYSIS OF THE AGENCY

Net Position

Fiscal year 2014 as compared to fiscal year 2013:

	2014	2013	% Increase (Decrease)
Current Assets	$ 77,649,184	$ 65,095,239	19.3 %
Noncurrent Assets			
Capital Assets	273,444,634	274,163,165	(0.3) %
Other Assets	34,626,180	86,315,785	(59.9) %
Total Assets	385,719,998	425,574,189	(9.4) %
Long Term Debt	14,239,737	71,319,686	(80.0) %
Other Liabilities	35,318,136	14,494,305	143.7 %
Total Liabilities	49,557,873	85,813,991	(42.2) %
Net investment in Capital Assets	259,204,897	256,609,304	1.0 %
Restricted Net Position	54,531	-	- %
Unrestricted Net Position	76,902,697	83,150,894	(7.5) %
Total Net Position	$ 336,162,125	$ 339,760,198	(1.1) %

The Agency's total net position decreased $3.6 million, or -1.1%, in part as a result of the following:

- $1.1 million in accumulated net position was used to fund the OMNI loan debt service reserve during 2014, which was charged to other direct program costs.
- $2.5 million of accumulated net position of the Urban Development Action Grant (UDAG) program appropriated by Metro Nashville Ordinances in a prior year was used in the current year to fund the Barnes Fund for affordable housing and ServiceSource to provide additional job opportunities.

FINANCIAL ANALYSIS OF THE AGENCY (CONTINUED)

Revenues, Expenses and Changes in Net Position

Fiscal year 2014 as compared to fiscal year 2013:

	2014	2013	% Increase (Decrease)
Operating Revenues			
Rentals	$ 12,960,009	$ 11,782,093	10.0 %
Other tenant revenue	714,996	679,481	5.2 %
Governmental Operating Revenue	94,065,396	76,628,172	22.8 %
Local Government Development Activities	1,599,052	4,781,056	(66.6) %
Other	2,750,822	5,327,481	(48.4) %
Total Operating Revenues	112,090,275	99,198,283	13.0 %
Operating Expenses:			
Administrative expenses	15,491,462	16,063,823	(3.6) %
Other	105,818,009	89,361,472	18.4 %
Total Operating Expenses	121,309,471	105,425,295	15.1 %
Operating Loss	(9,219,196)	(6,227,012)	48.1 %
Nonoperating Revenues (Expenses)	(1,721,325)	(3,138,214)	(45.1) %
Capital Contributions	7,342,448	8,966,107	(18.1) %
Casualty loss and related expenses	-	(2,558,235)	100.0 %
Change in Net Position	$ (3,598,073)	$ (2,957,354)	21.7 %

The decrease in local government development activities revenue is due to the waterfront redevelopment project completed during 2013 and Omni tax increment loan refinancing in October 2013 reclassified as conduit debt in 2014.

The increase in governmental operating revenues and other operating expenses is a result of the increased rehabilitation projects using $8 million of Community Development Block Grants (CDBG) and CDBG Disaster Recovery funds. The Low Rent Operating program received an additional $2.5 million due to an increase in the HUD funding proration for 2014. HUD funding for the Rental Assistance program increased $8.3 million due to 100% HAP lease ups along with a rise in funding proration for the current year.

The decrease in other revenue and casualty loss is due to a high-rise fire in 2013, which was primarily funded by insurance proceeds for costs associated with renting generators including fuel and cabling to provide utilities to the residents of a high-rise building while renovations to repair damages resulting from water damage following the fire.

CAPITAL ASSETS

Fiscal year 2014 as compared to fiscal year 2013:

	2014	2013	% Increase (Decrease)
Land	$ 85,462,471	$ 84,365,411	1.3 %
Infrastructure	21,185,548	21,185,548	- %
Buildings	306,434,564	301,338,711	1.7 %
Equipment	4,569,236	4,557,968	0.2 %
Construction in progress	15,619,377	12,425,967	25.7 %
Total	433,271,196	423,873,605	2.2 %
Less Accumulated Depreciation	(159,826,562)	(149,710,435)	6.8 %
Net Capital Assets	$ 273,444,634	$ 274,163,170	(0.3) %

Net capital assets decreased $700,000, or -0.3% during fiscal year 2014. During fiscal year 2014, the Agency expended $11.0 million on capital activities. The capital expenditures included $6.8 million in major improvements to Madison Towers; $1.5 million in major renovations for Gernert Studio apartments; $800,000 for the purchase of property on Jefferson Street; $761,000 for improvements to Neighborhood Housing units; and $305,000 to complete major renovations for Edgefield Cottages.

Capital asset acquisitions are capitalized at cost. Acquisitions are funded from federal grants and operating subsidy.

Depreciation expense on capital assets totaled $11.2 million during fiscal year 2014.

DEBT ADMINISTRATION

Fiscal year 2014 as compared to fiscal year 2013:

	2014	2013	% Increase (Decrease)
Total Notes Payable - other	$ 14,239,737	$ 71,319,686	(80.0) %

DEBT ADMINISTRATION (CONTINUED)

As of September 30, 2014, the Agency's note principal and interest outstanding totaled $14.2 million - a decrease of 80% from the prior year. In October 2013, the $53.7 million OMNI hotel loan was refinanced and, accordingly, was derecognized as a liability of the Agency. The loan is now considered conduit debt for financial presentation. A corresponding note receivable totaling $53.7 million has also been removed from the financial statements. The new loan is secured solely by revenue generated by tax increment properties in the Capitol Mall Redevelopment district and recourse is limited to the incremental tax revenues received by MDHA.

NEW BUSINESS

On November 14, 2014, the Agency closed a lease/leaseback financing arrangement with Gates/Parking Real Estate Fund II for $35,500,000 at a fixed interest rate of 4.839%. Loan proceeds of $6.5 million were used to purchase the 505 Church Street property, with the remaining proceeds earmarked for the construction of a parking garage on the property as approved at the May 11, 2014 board meeting.

Additionally, on December 19, 2014, the Agency purchased CWA apartments for $9.6 million. The complex is located at 200 S 4th Street, 522 Shelby Avenue and 400 Shelby Avenue and consists of 252 apartments adjacent to Cayce Place. HUD has approved the assumption of an existing Flexible Subsidy Loan on the property with an outstanding balance of $6.1 million at an interest rate of 1.0%. The remaining $3.5 million necessary for the purchase was funded from the Agency's central office cost center reserves.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide residents, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the monies it receives. If you have questions about this report or need additional financial information, contact the Director of Finance at MDHA, P.O. Box 846, Nashville, TN 37202.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENT OF NET POSITION

SEPTEMBER 30, 2014

ASSETS

CURRENT ASSETS		
Cash and cash equivalents	$	35,691,222
Restricted cash and cash equivalents		30,543,732
Certificates of deposit		4,451,769
Receivables:		
Tenant, net of allowances		86,789
Amounts due from other governmental agencies		3,398,996
Current portion of notes receivable, net of allowances		206,196
Interest on certificates of deposit		7,394
Other		293,634
Inventory		2,077,782
Prepaid expenses		891,670
TOTAL CURRENT ASSETS		77,649,184
CAPITAL ASSETS, NET		273,444,634
NONCURRENT ASSETS		
Notes receivable, net of allowances		34,626,180
TOTAL NONCURRENT ASSETS		34,626,180
TOTAL ASSETS		385,719,998
DEFERRED OUTFLOWS OF RESOURCES		-

See accompanying notes.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENT OF NET POSITION (CONTINUED)

SEPTEMBER 30, 2014

LIABILITIES

CURRENT LIABILITIES		
Funds held for others	$	24,982,095
Accounts payable		4,114,962
Contract retention payable		27,122
Compensated absences payable		927,441
Accrued liabilities		1,748,679
Due to tenants		1,156,483
Unearned revenue		102,970
Due to other governments		133,678
Current portion of long-term debt		2,968,746
TOTAL CURRENT LIABILITIES		36,162,176
NONCURRENT LIABILITIES		
Deposits		674,093
Long-term debt, less current maturities		11,270,991
Long-term compensated absences payable		1,450,613
TOTAL NONCURRENT LIABILITIES		13,395,697
TOTAL LIABILITIES		49,557,873
DEFERRED INFLOWS OF RESOURCES		-
NET POSITION		
Net investment in capital assets		259,204,897
Restricted for other purposes		54,531
Unrestricted net position		76,902,697
TOTAL NET POSITION		336,162,125
TOTAL LIABILITIES AND NET POSITION	$	385,719,998

See accompanying notes.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 2014

OPERATING REVENUES	
Rentals, net of bad debt expense of $349,391	$ 12,960,009
Other tenant revenue	714,996
Governmental operating revenue	94,065,396
Program income	701,259
Local government development activities	1,599,052
Other income	2,049,563
TOTAL OPERATING REVENUES	112,090,275
OPERATING EXPENSES	
Cost of Services:	
Tenant services	875,374
Utilities	7,905,453
Ordinary maintenance and operations	14,230,255
Protective services	1,366,939
Other direct program costs	26,393,790
Housing assistance payments	43,834,784
Administration	15,491,462
Depreciation	11,211,414
TOTAL OPERATING EXPENSES	121,309,471
OPERATING LOSS	(9,219,196)
NONOPERATING REVENUES (EXPENSES)	
Interest income	155,025
Impairment allowance on notes receivable	(162,861)
Loss on disposition of assets	(1,043,781)
Interest expense	(669,708)
TOTAL NONOPERATING EXPENSES - NET	(1,721,325)
DECREASE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	(10,940,521)
Capital contributions	7,342,448
CHANGES IN NET POSITION	(3,598,073)
NET POSITION - BEGINNING OF YEAR	339,760,198
NET POSITION - END OF YEAR	$ 336,162,125

See accompanying notes.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from rental operations	$ 13,055,167
Receipts from program income	688,837
Receipts from government subsidy for operations	92,343,851
Receipts from local governmental development activities	1,984,779
Receipts from other	20,488,833
Payments to and on behalf of employees	(19,436,141)
Payments for other administrative expenses	(3,099,684)
Payments for other direct program costs, including housing assistance payments	(84,736,858)
Program loan activities:	
Cash expended for program loans	(234,088)
Principal collections on notes receivable	285,328
Interest income collections	23,594
NET CASH PROVIDED BY OPERATING ACTIVITIES	21,363,618
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipts from governmental capital grants	7,342,448
Purchases of capital assets	(11,028,173)
Proceeds from capital debt	2,945,072
Principal paid on capital debt	(6,259,196)
Interest paid on capital debt	(669,712)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(7,669,561)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(6,660,890)
Proceeds from the sales and maturities of investments	6,613,825
Interest received	169,818
NET CASH PROVIDED BY INVESTING ACTIVITIES	122,753
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,816,810
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	52,418,144
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 66,234,954 *

See accompanying notes.

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2014

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	$ (9,219,196)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	11,211,414
Bad debt expense	349,391
Changes in assets and liabilities:	
Decrease in accounts receivable	15,997,596
Decrease in inventories	128,374
Increase in prepaid expenses and other assets	(331,712)
Increase in due to tenants	29,871
Increase in accounts payable and amounts due to other governments	3,099,374
Increase in unearned revenue and other deposits	99,836
Decrease in accrued liabilities and compensated absences	(52,570)
Program loan activities:	
Cash expended for program loans	(234,088)
Principal collections on notes receivable	285,328
TOTAL ADJUSTMENTS	30,582,814
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 21,363,618

* Cash reconciliation as reported on the Statement of Net Position:

Cash and cash equivalents	$ 35,691,222
Restricted cash and cash equivalents	30,543,732
	$ 66,234,954

Supplementary Information:

During the year ended September 30, 2014, the Agency refinanced a tax increment financing note payable related to a development and funding agreement with Omni Nashville, LLC. The note was refinanced as conduit debt and is, therefore, no longer reported as a debt of the Agency. Liabilities and a corresponding note receivable totaling $53,765,825 have been removed from the financial statements of the Agency.

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF THE AGENCY

The Metropolitan Development and Housing Agency of Nashville, Tennessee ("MDHA" or the "Agency"), a public corporate body, was organized in 1938 under the laws of the State of Tennessee and is a discretely presented component unit of the Metropolitan Government of Nashville and Davidson County (the "Metropolitan Government"). The Agency was created for the purpose of providing affordable housing opportunities in a safe environment. MDHA has administrative responsibility for various other community development programs whose primary purpose is the development of viable urban communities including the administration of capital projects on behalf of the Metropolitan Government.

The governing body of the Agency is its Board of Commissioners, composed of seven members appointed by the Mayor and confirmed by the Metropolitan Council of Nashville and Davidson County, Tennessee.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement focus, basis of accounting and basis of presentation

The financial statements are presented using the accrual basis of accounting with an economic resources measurement focus. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. As permitted by accounting principles generally accepted in the United States of America (GAAP), the Agency has elected to apply all relevant Government Accounting Standards Board (GASB) pronouncements and only applicable Financial Accounting Standards Board (FASB) Accounting Standards Certification (ASC) pronouncements that do not contradict GASB pronouncements in the preparation of the financial statements.

The Agency distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from grant agreements, providing services, and producing and delivering goods in connection with the ongoing principal operations. The principal operating revenues of the Agency include program specific grants, rental income from tenants of the various single and multi-family housing projects and development fees for the administration of various community development programs and capital projects of the Metropolitan Government. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Reporting entity

As described in GASB Statement No. 34, paragraph 134, the Agency meets the definition of a special purpose government ("SPG"). MDHA is a legally separate entity that is engaged in only business-type activities. Business-type activities are defined as activities that are financed in whole or in part by fees charged to external parties for goods or services. SPGs engaged only in business-type activities are required to present only the financial statements required for proprietary funds, which includes Management's Discussion and Analysis ("MD&A"), basic financial statements, and Required Supplemental Information ("RSI"). All inter-program activities have been eliminated in these financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Fund Types- the funds are consolidated into a single fund for reporting purposes

CONVENTIONAL LOW RENT HOUSING PROGRAM
This fund is used to account for all Agency owned public housing properties, any mixed finance public housing properties (which are not owned by the Agency), and any Capital Funds costs. It is the largest and most active of the funds and is controlled through an annual operating budget, which is approved by the Board of Commissioners.

CENTRAL OFFICE COST CENTER
This program contains all the income and expenses associated with the Agency's centralized functions (e.g. executive, finance, human resources, information technology, purchasing, central maintenance, etc.). The establishment of the program was required by HUD regulations relating to asset management.

HOUSING CHOICE VOUCHER PROGRAM
This fund is used to account for the administration of the Agency's Section 8 vouchers program. It is funded by HUD and seeks to provide prospective residents with greater choice in selection of assisted housing.

CONSOLIDATED ANNUAL ACTION PLAN PROGRAMS
This fund has been created to account for the administration of programs funded by HUD. The goals of these programs are to address the problems of affordable housing, homelessness, community development needs, and economic opportunities for all citizens, particularly for very low-income and low-income persons.

LOCAL PROGRAMS
This fund accounts for the state funded programs and grants and programs administered on behalf of the local government by the Agency.

BUSINESS ACTIVITIES
This fund accounts for all programs that are neither federal, state nor local that are administered by the Agency.

Cash and Cash Equivalents

The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents are stated at fair value.

Allowance for Doubtful Accounts

The Agency uses the allowance for bad debts method of valuing doubtful receivables which is based on historical experience, coupled with a review of the status of existing receivables. As of September 30, 2014, an allowance for doubtful receivables in the amount of $3,620,824 has been provided by management.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments consist of certificates of deposit and are stated at cost, which approximates fair value given the nature of the investments. The accrued interest on the investments is included in receivables in the statement of net position.

Capital assets

Capital assets include property, plant, equipment, and infrastructure assets (e.g. roads, sidewalks, and similar items), with an initial, individual cost of more than $5,000 and an estimated useful life of one year or more. Capital assets are stated at cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. The costs of U. S. Department of Housing and Urban Development ("HUD") "Capital Fund" projects are reported as construction-in-progress until audited cost certification reports are approved by HUD, at which time such costs are transferred to appropriate fixed assets categories. Depreciation is provided by the straight-line method over the following estimated useful lives of the assets:

Building and improvements	10 to 40 years
Infrastructure	10 to 40 years
Furniture and Equipment	3 to 15 years

Additionally, the Agency holds certain capital assets under agreements with the Metropolitan Government. Under the agreements, the proceeds from the sale of such assets revert to the Metropolitan Government. The assets are recorded in capital assets at fair value at the date of transfer with a corresponding liability recorded for the expected amount owed to the Metropolitan Government upon sale.

Inventory

MDHA's inventory consists of vacant properties that have been purchased or received as contributions from the Metropolitan Government. Inventory also includes single-family homes that were constructed with federal or state funds and are available for sale to qualified agencies or individuals. Properties purchased or constructed are reported at historical cost. Properties contributed by the Metropolitan Government are recorded at fair value at the date of gift. These costs are reported as inventory until such time as the property is sold or used.

Provision for uncollectible notes

A note receivable is considered impaired when, based on current information, it is probable that some or all amounts of principal and interest due will not be collected according to the terms of the note agreement. Uncollectible notes are charged to the allowance account in the period such determination is made. The provision for uncollectible notes receivable was $17,858,835 at September 30, 2014.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated absences

Employees earn annual leave at a rate ranging from 12 days per year for the first five years of service, up to a maximum of 25½ days per year after 20 years. There is no requirement that annual leave be taken; however, the maximum permissible accumulation is 76½ days. Sick leave is accumulated at the rate of one work day per month. Unused sick leave may accumulate to an unlimited amount. At termination, employees are paid for any accumulated annual leave, and employees who have completed 15 years or more of service will be paid 20% of unused sick leave. All annual leave and vested sick leave are accrued in the period incurred.

Use of estimates in preparation of financial statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Restricted Assets

Restricted assets consist of cash and certificate of deposits, which are legally restricted. The restricted assets primarily are to be used for purposes specified under the Housing Choice Voucher or Family Self Sufficiency programs. The restricted assets also include escrow accounts for the loan proceeds to be used for the construction of the convention center hotel and accounts to be used for the repayment of the energy performance note. When restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed. Restricted assets totaled $30,543,732.

Tenant Accounts Receivable Net of Bad Debt Expense

The State of Tennessee Comptroller's Office requires that in accordance with Governmental Accounting Standards Board Statement No. 34, revenues in proprietary funds should be reported as net of all related allowances, which include amounts pertaining to uncollectible accounts. Therefore, the increase and decrease in the estimate of uncollectible accounts should be reported net of revenue instead of bad debt expense. The Agency's bad debt expense charged against revenue was $349,391 for the year ended September 30, 2014.

Revenue and Expenses

Revenue is recorded as earned and expenses are charged against such revenue as incurred without regard to the date of receipt or payment of cash.

The Agency has entered into annual contribution contracts with HUD to develop, manage and own public housing projects and to administer the federal Section 8 programs whereby the Agency pays the owner a portion of the rent, a housing assistance payment ("HAP"), on behalf of the family. Funding from HUD through those annual contribution contracts are reflected as HUD grants in the accompanying financial statements.

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with GASB Statement No. 40 "Deposits and Investment Risk Disclosures," information related to cash, cash equivalents and investments is as follows:

A. Custodial Credit Risk
Custodial credit risk for deposits and investments is the risk that, in the event of failure by a financial institution, the Agency may not be able to recover the value of its deposits and investments or collateral securities that are in the possession of the financial institution. The policy of the Agency is to invest, on a daily basis, all idle funds in financial institutions that are secured by collateral of identifiable United States government securities. All cash and investments are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC) or other equivalent insurance company of depository financial institutions. The deposits exceeding the insured or registered limits are collateralized with securities held by the Agency's financial institution.

B. Interest Rate Risk
Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of an investment. The Agency's investment policy limits investments to provide the optimum return on the investment consistent with the cash management program of the Agency.

Investments are made based upon prevailing market conditions at the time of the transaction. The Agency reviews its cash and investment needs in order to maintain adequate liquidity to meet its cash flow needs. Investments will typically be limited to securities maturing in periods of up to one year, or such lesser period that coincides with expected disbursements by the Agency.

C. Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments are made under the 'prudent investor' standard to ensure that (a) due diligence is exercised in accordance with State law, (b) any negative deviations are reported timely and (c) reasonable action is taken to control any adverse developments. The Agency's investment policy requires investments to be made in accordance with HUD Financial Handbook, 7475.1 Chapter 4.

D. Concentration of Credit Risk
The Agency's investment policy does not limit the amount it may invest with one financial institution as long as all funds are secured by the FDIC or identifiable United States government securities.

E. Foreign Currency Risk
Foreign currency risk is the risk that changes in exchange rates will adversely affect fair value of an investment or a deposit. All of the Agency's deposits and investments are dominated in United States currency.

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Schedule of restricted cash and cash equivalents with offsetting liability and restricted net position as of September 30, 2014 is as follows:

Funds held for others	$	24,982,095
Deposits		674,093
VO HAP Restricted equity		54,531
Due to resident councils		562,382
Current and long-term debt for energy performance note		4,151,635
Property management company accounts		118,996
	$	30,543,732

Funds held for others $24,982,095 are cash and cash equivalents held in MDHA's name and managed by the Agency under a 'Memorandum of Understanding' (MOU) for the benefit of certain not-for-profit organizations and affiliate entities and escrow funds held for certain tax increment financing loans.

Deposits of $674,093 are held for participants in the HUD Family Self-Sufficiency program.

Housing Assistance Payment (HAP) restricted equity totaling $54,531 are excess Section 8 housing assistance funds under the Housing Choice Voucher program.

Amounts due to resident councils of $562,382 are tenant participation funds from HUD which are held for use by the duly elected resident councils.

Current and long-term debt for repayment of the energy performance note of $4,151,635 is included in restricted cash for the asset management properties.

Tenant deposits of $118,996 for market rate units managed by a separate management company.

Deposit and Investment Policy

MDHA's deposit and investment policy is governed by the laws of the State of Tennessee and HUD guidelines. Permissible investments include direct obligations of the U.S. Government and Agency securities, certificates of deposit, savings accounts, repurchase agreements and the State of Tennessee Local Government Investment Pool.

Deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions, less the amount protected by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its subdivisions. Collateral requirements are not applicable for financial institutions that participate in the State of Tennessee's bank collateral pool.

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Deposit and Investment Policy (Continued)

As of September 30, 2014, the majority of MDHA's deposits were held by financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. Participating banks determine the aggregated balance of public fund accounts for MDHA.

The amount of collateral required to secure these public deposits must be at least 105% of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures.*

Investments

Certificates of deposit were covered by the State bank collateral pool, federal depository insurance or collateralized with securities held by the government's agent in the government's name.

The Agency has not established a limit on the amount it may invest in any one issuer. Citizens Bank has 100% of the Agency's investments as of September 30, 2014 consisting solely of certificates of deposit.

At September 30, 2014, the future maturities of MDHA's investments are as follows:

Type of Investment	Carrying Amount	Maturity Fiscal 2015
Certificates of Deposit	$ 4,451,769	$ 4,451,769
TOTAL	$ 4,451,769	$ 4,451,769

NOTE 4 - CAPITAL ASSETS

	Balance September 30, 2013	Additions	Retirements	Transfers	September 30, 2014
Capital assets, not being depreciated:					
Land	$ 84,365,411	$ 932,350	$ (535,290)	$ 700,000	$ 85,462,471
Construction in progress	12,425,967	9,983,844	-	(6,790,434)	15,619,377
Total capital assets, not being depreciated	96,791,378	10,916,194	(535,290)	(6,090,434)	101,081,848
Capital assets, being depreciated:					
Buildings	301,338,706	19,963	(1,014,539)	6,090,434	306,434,564
Infrastructure	21,185,548	-		-	21,185,548
Furniture, equipment, & machinery - dwellings	3,646,933	20,875	(50,139)	-	3,617,669
Furniture, equipment, & machinery - administrative	911,035	71,141	(30,609)	-	951,567
Total capital assets, being depreciated	327,082,222	111,979	(1,095,287)	6,090,434	332,189,348
Less accumulated depreciation for:					
Buildings	(137,086,519)	(10,156,506)	1,014,539		(146,228,486)
Infrastructure	(9,347,016)	(706,839)	-	-	(10,053,855)
Furniture, equipment, & machinery - dwellings	(2,596,619)	(260,350)	50,139	-	(2,806,830)
Furniture, equipment, & machinery - administrative	(680,281)	(87,719)	30,609	-	(737,391)
Total accumulated depreciation	(149,710,435)	(11,211,414)	1,095,287	-	(159,826,562)
Total capital assets, being depreciated, net	177,371,787	(11,099,435)	-	6,090,434	172,362,786
Total capital assets, net	$ 274,163,165	$ (183,241)	$ (535,290)	$ -	$ 273,444,634

NOTE 5 - NOTES RECEIVABLE

Notes receivable, including related accrued interest, consisted of the following as of September 30, 2014:

Vine Hill Homes Loans	$ 13,356,852
Preston Taylor Homes Loans - Phase I	13,033,098
Preston Taylor Homes Loans - Phase II	7,780,825
Rehabilitation Loans	3,193,754
Business District Loans	53,704
Façade Loans	159,992
Neighborhood Stabilization Promissory Notes	14,534,864
Other	578,122
Allowance for doubtful accounts	(17,858,835)
Net notes receivable and accrued interest receivable	34,832,376
Less current portion	(206,196)
Net Notes Receivable and Accrued Interest Receivable, Less Current Portion	$ 34,626,180

Vine Hill Homes Loans were made to Vine Hill Homes, LLC for the construction and development of the Vine Hill project. The loans were funded by various federal and state grant programs, including HOPE VI, Comprehensive Grant, UDAG repayment funds, Refunding Agreement and the State of Tennessee House grant funds. The nonrecourse loans are secured by a leasehold deed of trust. (See Note 13.) The loan funded from the State of Tennessee House grant funds, in the amount of $250,000, is non-interest bearing and payable in thirty years, November 2028. The remaining loans accrue interest at the rate of 1.5% per annum. Accrued interest earned totaled $2,249,462 at September 30, 2014, and has been added to the note receivable balance. Based upon a review of the collectability of the accrued interest, an allowance for the full accrued interest balance has been established by management at that date. The notes mature in November 2028. Under a certain Purchase Option Agreement entered into by MDHA and Vine Hill Homes, LLC, subsequent to the Tax Credit Compliance Period, on the maturity date, MDHA has the right of first refusal to acquire the Vine Hill project at the greater of the total outstanding debt on the property or the fair market value of the property.

NOTE 5 - NOTES RECEIVABLE (CONTINUED)

Preston Taylor Homes Loans - Phase I were made to Preston Taylor Homes, LLC for the construction and development of the Preston Taylor project. The loans were funded by various federal grant programs, including HOPE VI, and UDAG repayment funds. The nonrecourse loans are secured by a leasehold deed of trust. The outstanding loan balance accrues interest at the rate of 0.1% per annum. Accrued interest earned totaled $153,482 at September 30, 2014, and has been added to the note receivable balance. The notes mature on December 29, 2040. Under a certain Purchase Option Agreement entered into by MDHA and Preston Taylor Homes, LLC, subsequent to the Tax Credit Compliance Period, which ends in 2017, MDHA has the right of first refusal to acquire the Preston Taylor Phase I project at the greater of the total outstanding debt on the property or the fair market value of the property.

Preston Taylor Homes Loans - Phase II were made to Preston Taylor Homes, LLC for the construction and development of the Preston Taylor project. The loans were funded by various federal grant programs, including HOPE VI, Capital Fund Grant, and UDAG repayment funds. The nonrecourse loans are secured by a leasehold deed of trust. The outstanding loan balance accrues interest at the rate of .1% per annum. Accrued interest earned totaled $84,024 at September 30, 2014, and has been added to the note receivable balance. The notes mature on January 4, 2042. Under a certain Purchase Option Agreement entered into by MDHA and Preston Taylor Homes, LLC, subsequent to the Tax Credit Compliance Period, which ends in 2018, MDHA has the right of first refusal to acquire the Preston Taylor Phase II project at the greater of the total outstanding debt on the property or the fair market value of the property.

Rehabilitation Loans are made from the Community Development Block Grant and Home Investment Trust programs to aid homeowners in rehabilitating substandard housing or historic homes and loans for new construction of rental properties. These loans are for a maximum of 20 years with a 3% interest rate, secured by a deed of trust on the property. Principal and interest payments received are reported as program income for the grant programs and are applied to eligible future expenses. The loans have varying maturity dates through 2034. Management has provided an allowance for doubtful accounts totaling $938,565 related to these loans.

Business District Loans are made from the Community Development Block Grant program to promote small business and provide incentive for reinvestment in areas of general commercial deterioration. These unsecured loans are for a maximum of $20,000 at the prime interest rate for a term of five to ten years. Management has provided an allowance for doubtful accounts totaling $23,704 related to these loans.

NOTE 5 - NOTES RECEIVABLE (CONTINUED)

Facade Loans are made from the Community Development Block Grant program to aid businesses in repairing and renovating the exterior of buildings in the commercial neighborhood strategy areas. These unsecured non-interest bearing loans are for a maximum of $35,000 per building with a five year repayment term. Management has provided an allowance for doubtful accounts totaling $112,240 related to these loans.

Neighborhood Stabilization Promissory Notes were executed between MDHA and non-profit entities that received NSP funds for the acquisition, rehabilitation and redevelopment of foreclosed or vacant properties. The properties have an affordability period per the grant agreements of 25 years. If the borrower complies with all of the terms and requirements of the restrictions, the entire balance of the Note will be forgiven at the end of the affordability period. No interest shall be due or payable on this Note. The provision for uncollectible notes includes 100% of the NSP notes which total $14,534,864 as of September 30, 2014.

Tax Increment Financing Note was made when The Convention Center Authority of Nashville and Davidson County entered into a development and funding agreement with Omni Nashville, LLC to provide for an 800-room convention center hotel with associated structured parking, meeting spaces, restaurants, and other amenities. As part of the incentives for this development, MDHA provided tax increment financing for land acquisition and other TIF-eligible expenses. The tax increment note was refinanced during the year and reclassified as conduit debt, therefore the note receivable balance as of September 30, 2014 was $0.

Other notes receivable consist of business loans to local development agencies for affordable housing development and loans made from the Technical Assistance Program Fund to promote privately owned small businesses in low-income areas and loans related to the sale of properties. Of the $578,122 balance, $489,088 is due from Ryman Lofts at Rolling Mill Hill, L.P. The loan bears interest at 5% and matures on September 1, 2041. Principal and interest is payable from the cash flow of Ryman Lofts at Rolling Mill Hill, L.P on an annual basis, on or before the 90th day following the end of each calendar year.

NOTE 6 - LONG-TERM DEBT

A summary of changes in MDHA's long-term debt for the year ended September 30, 2014 is presented below:

	9/30/2013	Additions	Retirements	Balance 9/30/2014	Due within one year
Notes Payable	$ 71,319,686	$ 2,945,072	$ (60,025,021)	$ 14,239,737	$ 2,968,746

A complete detail of the long-term debt is provided on the following page.

NOTE 6 - LONG-TERM DEBT (CONTINUED)

$1,400,000 promissory note with Bank of Tennessee, dated May 24, 2012, payable in monthly installments of principal of $7,780 plus accrued interest through the maturity date of June 25, 2024. Interest accrues at the variable rate of the Prime Rate (currently 3.25%) minus two percentage points, but not less than zero. The note is collateralized by a 76-unit apartment complex and assignment of rents and leases.	$	913,838
$2,000,000 promissory note, amended September 11, 2014, with Pinnacle National Bank which will be payable in monthly installments of principal and interest of $27,800 through the maturity date August of 2021. Interest accrues at a tax-free rate of 4.5%. The note is collateralized by Sam Levy Homes (a 226-unit apartment complex) and assignment of rents and leases.		2,000,000
$2,500,000 construction loan agreement with Suntrust Bank, originally dated December 29, 2005 for funding construction of the forty John Henry Hale Homes market rate apartments. On April 23, 2009, the loan was amended and converted to a $2,500,000 promissory note, payable in monthly installments of principal and interest through June 29, 2012. In October 2012, the loan maturity was extended to September 2032 and is payable in monthly installments of $11,142 plus accrued interest based upon a fixed rate equal to 4.5% per annum. The note is collateralized by J. Henry Hale Apartments (a 228-unit apartment complex) and assignments of rents and leases.		1,650,186
$12,100,000 Tax-Exempt Municipal Lease Purchase Financing Contract with Pinnacle National Bank, dated July 2, 2009 with a fixed rate of 3.98% for the acquisition and installation of equipment necessary to implement the energy savings program. Interest accrued for 13 months with no payment due. At the end of the 13 month period, August 2, 2010, the accrued interest was capitalized and added to the original $12,100,000 balance. Twenty-eight fixed quarterly payments of principal and interest totaling $500,404 are due through the maturity date in June 2017. Pinnacle Bank placed a first perfected security interest in the total project and associated equipment.		5,189,517
$2,415,036 Tax-Exempt Municipal Lease Purchase Financing Contract with Pinnacle National Bank, dated August 5, 2013 with a fixed rate of 2.99% for the third phase of the energy performance contract. Five annual payments of principal and interest totaling $650,197 are due through maturity in September 2017. Pinnacle Bank placed a first perfected security interest in the total project and associated equipment.		1,838,046
$2,945,072 promissory note with the Bank of Tennessee dated April 19, 2014, for the construction of a 72 unit apartment building. This loan was previously an interest only loan that converted to permanent financing on April 19, 2014. Monthly principal and interest payments total $24,202 and interest accrues at a rate of 5.51%. The note is collateralized by the Uptown Flats apartment complex and assignment of rents and will mature in January of 2024.		2,648,150
	$	14,239,737

NOTE 6 - LONG-TERM DEBT (CONTINUED)

A schedule of principal maturities of long-term debt at September 30, 2014 is as follows:

Year Ending September 30	Principal	Interest	Total
2015	$ 2,968,746	$ 548,607	$ 3,517,353
2016	3,110,388	433,186	3,543,574
2017	2,701,539	313,043	3,014,582
2018	623,608	238,382	861,990
2019	649,817	210,991	860,808
2020-2024	2,569,424	638,024	3,207,448
2025-2029	1,250,196	144,495	1,394,691
2030-2034	366,019	25,319	391,338
Total	$ 14,239,737	$ 2,552,047	$ 16,791,784

Certain loans on the previous page contain restrictive covenants. The Agency was in compliance with those covenants at September 30, 2014

NOTE 7 - CONDUIT DEBT OBLIGATIONS

Tax increment financing ("TIF") is a method of funding certain public investments for redevelopment by recapturing, for a time, all or a portion of the increased tax revenue that may result if private investment can be stimulated to occur. Tax increment can only be generated by the increased taxes resulting from private development on land in a redevelopment district that has been acquired and re-sold or leased by MDHA. The tax increment due to the difference in the tax basis is then diverted to the redevelopment agency which may use those funds to finance public purpose expenditures or to repay bonds or notes that were issued to finance those expenditures. These loans are special limited obligations of MDHA, payable solely from and secured by a pledge of the tax increment revenues designated for the payment of the loan. The loans do not constitute debt or a pledge of credit of MDHA or the Metropolitan Government and, accordingly, are not reported in the accompanying financial statements.

The Tax Increment Financing Loans, including related accrued interest payable, aggregated approximately $138 million at September 30, 2014.

NOTE 7 - CONDUIT DEBT OBLIGATIONS (CONTINUED)

A summary of changes in MDHA's conduit debt for the year ended September 30, 2014 is presented below:

Company	Project Description	Balance 9/30/2013	Additions	Retirements	Balance 9/30/2014	Accrued Interest
3501	Castner Knott	$ 1,850,000	$ -	$ -	$ 1,850,000	$ 831,979
3501	Cohen Bldg	300,000	-	-	300,000	183,403
3501	Cumberland Apts	6,000,000	-	-	6,000,000	1,090,529
3501	Hermitage- Historic Hotels	1,500,000	-	-	1,500,000	380,128
3501	Kress	504,074	-	(30,737)	473,337	13,622
3501	Viridian	4,294,560	-	(711,097)	3,583,463	37,090
3501	ACME Feed Building	-	400,000	-	400,000	6,278
3501	Omni Hotel (10/4/2013)	-	53,850,000	(2,341,339)	51,508,661	559,871
3504	Rolling Mill Hill	2,879,479	-	-	2,879,479	279,589
3504	Encore	383,439	-	(383,439)	-	-
3504	Trolley Barn	617,110	-	(53,945)	563,165	12,764
3504	SWHR Hermitage (Terra House)	-	649,500	-	649,500	9,106
3504	Rutledge Hill Amphitheater	-	6,775,000	(294,565)	6,480,435	69,292
3504	Rutledge Hill Amphitheater II	-	3,331,000	(3,154,209)	176,791	1,984
3507	Werthan Mills	2,999,441	-	(481,495)	2,517,946	16,554
3507	Jefferson Street Lofts	746,812	-	(42,585)	704,227	11,422
3507	915 Jefferson Street	156,861	-	(31,153)	125,708	3,568
3507	Ballpark Project	-	28,000,000	-	28,000,000	462,391
3515	5th & MAIN	5,807,570	-	-	5,807,570	1,756,765
3515	East Side Apartments	400,000	-	-	400,000	-
3518	Ash-McNiel	200,000	-	-	200,000	11,429
3518	Icon	5,458,564	-	(1,405,771)	4,052,793	72,440
3518	Braid Electric	548,365	-	(41,944)	506,421	7,641
3518	Javanco/Waggoner	1,270,981	-	(149,930)	1,121,051	44,368
3518	Laurel House 2002	313,011	-	(55,069)	257,942	6,363
3518	Velocity	5,992,466	-	(294,888)	5,697,578	189,150
3518	Gulch Infrastructure (Laurel Property)	-	3,668,806	-	3,668,806	19,235
3518	Gulch Crossing	-	2,823,842	-	2,823,842	53,010
	Total	$ 42,222,733	$ 99,498,148	$ (9,472,166)	$ 132,248,715	$ 6,129,971

Section 108 is the loan guarantee provision of the Community Development Block Grant Program. Section 108 provides communities with a source of financing for economic development, housing rehabilitation, public facilities and large scale physical development projects. The Metropolitan Government has borrowed funds under this program and guaranteed repayment of the loan by pledging present and future Community Development Block Grants. MDHA is the agent designated by the Metropolitan Government to administer the CDBG program; therefore, the outstanding loan does not constitute a debt of MDHA, and it is not reported in the accompanying financial statements. At September 30, 2014, the Section 108 loans outstanding aggregated to approximately $1.87 million.

NOTE 8 – OTHER LONG-TERM LIABILITIES

The activities of compensated absences and other long-term liabilities are as follows:

	Balance 9/30/13	Additions	Adjustments/ Payments	Balance 9/30/14	Current Portion
Deposits	$ 582,686	$ 295,731	$ (204,324)	$ 674,093	$ -
Compensated absences	2,444,165	-	(66,111)	2,378,054	927,441
	$3,026,851	$ 295,731	$ (270,435)	$3,052,147	$ 927,441

NOTE 9 - RISK MANAGEMENT

MDHA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. MDHA maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to MDHA. During the year ended September 30, 2014, settled claims have not exceeded this commercial insurance coverage.

NOTE 10 - EMPLOYEE BENEFIT PLANS

The MDHA retirement plan is a 401A Plan administered by the Vanguard Group. The Plan, which is principally a defined contribution plan, also provides certain minimum defined benefits for employees who were participants in the MDHA Retirement Plan as of September 30, 2000. Based on the most recent actuarial study performed as of July 1, 2013, the Agency had no required contribution due related to the defined benefit portion of the Plan. Employees are eligible to participate beginning the first day of the month following the date of hire. There are no required contributions by the participants; however, participants may make voluntary contributions from 0.5% to 10% of basic compensation and MDHA contributes 13% of participants' basic compensation. Contributions are invested in any of twenty-two funds as elected by the participant. Investment options and voluntary contributions may be changed daily.

Participants' voluntary contributions plus actual earnings are immediately vested. Participants are also immediately vested in 5.5% of the 13% of MDHA's contributions. Each year of participation in the Plan, participants vest at the rate of 20% of the remaining balance and become fully vested after 5 years.

Benefits are paid in the form of a cash distribution or various other annuity options at normal retirement date, age 65, death or disability. Participants may also elect to roll the vested portion of retirement savings into another qualifying plan or an IRA or leave the amount in the Plan. Early retirement may be elected by employees at age 55 who have at least ten years of service.

NOTE 10 - EMPLOYEE BENEFIT PLANS (CONTINUED)

MDHA contributions to the Plan for the year ended September 30, 2014 amounted to $1,409,690, which equaled the amount of required employer contributions. Employee voluntary contributions were $180,591 in 2014. MDHA's payroll for employees covered by the Plan for the fiscal year ended September 30, 2014 was $10,843,768. Total payroll for MDHA during the fiscal year ended September 30, 2014 amounted to $15,152,806.

MDHA sponsors a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan permits all employees to defer a portion of salary until future years. Such amounts are not available to them until termination, retirement, death or unforeseeable emergency. No contributions are made to this Plan by MDHA.

NOTE 11 - LEASES

MDHA leases certain office space and equipment under leases accounted for as operating leases. The minimum future rental commitments under these leases are not significant. Total lease expenditures made for the year ended September 30, 2014 were $73,994.

In addition, rental income, other than rent directly related to low-income housing units, is received under various other short-term land and building leases accounted for as operating leases. These leases are either cancelable leases or the future minimum rentals under these leases are insignificant. Rental income from these sources totaled $368,541 for the year ended September 30, 2014.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

MDHA receives significant financial assistance from numerous federal, state and local governmental agencies in the form of grants and operating subsidies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of MDHA. In the opinion of management, any such disallowed claims would not have a material effect on the financial position of MDHA at September 30, 2014.

At September 30, 2014, the Agency had outstanding construction commitments of approximately $9.3 million. These outstanding commitments will be paid by grants committed to the Agency by the U.S. Department of Housing and Urban Development and the Metropolitan Government of Nashville and Davidson County, Tennessee.

MDHA is a defendant in various lawsuits arising in the ordinary course of operations. Although the outcome of these lawsuits is not presently determinable, in the opinion of management, the resolution of these matters will not have a material adverse effect on the financial condition of MDHA. Accordingly, no provision for loss, if any, related to these matters has been made in the financial statements.

NOTE 13 - AFFILIATE AGREEMENTS

MDHA has assisted in the financing of a new 152-unit multifamily residential development known as Vine Hill Homes (the "Project") in the form of loans to Vine Hill Homes, LLC. These loans were made in consideration of Vine Hill's construction of the Project, including 136 units to be used as public housing. The 136 units are eligible to receive the benefit of operating subsidies provided to MDHA by HUD. (See Note 5.)

The apartment project is managed by MDHA, which is to receive a fee of 5% of the annual gross revenues of the Project with respect to the nonpublic housing units. Vine Hill has executed a ground lease agreement with MDHA, with various use restrictions and operating requirements, for a term of ninety-nine years. Upon expiration of the agreement, Vine Hill shall have an option to purchase the land for $100, provided the development notes have been paid in full. (See Note 5.)

MDHA has also assisted in the financing of mixed income affordable and market rate residential housing in the form of loans to Preston Taylor Homes, LLC. Preston Taylor Homes Phase I consists of 51 rental duplex and townhouse buildings comprising 182 units of rental housing. Of the 182 units, 170 shall be public housing units eligible to receive the benefits of operating subsidies provided to MDHA by HUD. The remaining 12 units shall be market units. Preston Taylor Homes Phase II consists of 116 units, of which 104 are public housing units and 12 are market rate units. Phase II of the project was completed in October 2003. (See Note 5.)

The apartment project is managed by MDHA which receives a fee of 6% of the gross revenues of the Project with respect to the nonpublic housing units. A ninety-nine year ground lease has been executed with MDHA. Upon expiration of the agreement, Preston Taylor shall have an option to purchase the land for $100, provided the development notes have been paid in full. (See Note 5.)

MDHA guarantees certain financial obligations of Vine Hill Homes, LLC and Preston Taylor Homes, LLC that include advances of funds, capital contributions, loans, and any and all other payments and options per the Operating Agreements. Tax credit availability and compliance guarantees are also provided by MDHA. Amounts guaranteed are not material and, at September 30, 2014, management estimates it is probable performance will not be required under these guarantees.

NOTE 14 - NET POSITION

The Agency's net position is categorized as follows:

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, capital lease obligations or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position - This component of net position consists of certain deposits restricted under grant programs, net of related liabilities.
- Unrestricted net position - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets".

The changes in net position for the year ended September 30, 2014 are as follows:

	Net Investment in Capital Assets	Restricted	Unrestricted	Totals
Net Position - September 30, 2013	$ 256,609,304	$ -	$ 83,150,894	$ 339,760,198
Changes in net position - 2014	2,595,593	54,531	(6,248,197)	(3,598,073)
Net Position - September 30, 2014	$ 259,204,897	$ 54,531	$ 76,902,697	$ 336,162,125

NOTE 15 - INCOME TAXES

The Agency has qualified with the Internal Revenue Service and the Tennessee Department of Revenue as a tax-exempt organization for income tax purposes and, accordingly, there is no provision in the financial statements for federal or state income taxes.

NOTE 16 - MAJOR FUNDING SOURCE

The Agency is substantially funded by Federal awards. The amount of future funding cannot be determined at this time by management.

NOTE 17 - SUBSEQUENT EVENTS

The Agency has evaluated events and transactions for potential recognition or disclosure through the date of the Independent Auditor's Report which represents the date the accompanying financial statements were available to be issued and has identified the following subsequent events.

On November 14, 2014, the Agency closed a lease financing arrangement with Gates/Parking Real Estate Fund II for $35,500,000 at a fixed interest rate of 4.839%. From these loan proceeds, $6.5 million were used to purchase the 505 Church Street property, with the remaining proceeds earmarked for the construction of a parking garage on the property as approved at the May 11, 2014 board meeting. Monthly payments are required beginning December 2016 through November 2044 and range from $170,027 to $244,599.

NOTE 17 - SUBSEQUENT EVENTS (CONTINUED)

Additionally, on December 19, 2014, the Agency purchased CWA apartments for $9.6 million. The complex is located at 200 S 4th Street, 522 Shelby Avenue and 400 Shelby Avenue and consists of 252 apartments adjacent to Cayce Place. HUD has approved the assumption of an existing Flexible Subsidy Loan on the property with an outstanding balance of $6.1 million at an interest rate of 1.0%. The remaining $3.5 million was funded from the Agency's central office cost center reserves.

ADDITIONAL INFORMATION

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

GRANT	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD		EXPENDITURES
U.S. DEPARTMENT OF ENERGY					
Passed through State Department of Human Services:					
Weatherization Assistance for Low-Income Persons	81.042	WAP-12-07	12-01-12 to 06-30-14		$ 135,510
TOTAL U.S. DEPARTMENT OF ENERGY					135,510
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Direct Programs:					
Public and Indian Housing	14.850	A-3777	10-01-13 to 09-30-14		23,419,835
Cluster:					
Section 8 Housing Choice Vouchers	14.871	A-3152V	10-01-13 to 09-30-14	45,936,813	
Section 8 5yr Mainstream Vouchers	14.879	TN005DV0001	10-01-13 to 09-30-14	430,597	
					46,367,410
Lower-Income Housing Assistance Program:					
Section 8 Moderate Rehabilitation - Single Room Occupancy	14.249	TN005SR0007	10-01-13 to 09-30-14	454,278	
Section 8 Moderate Rehabilitation - Single Room Occupancy	14.249	TN005SC0001	10-01-13 to 09-30-14	93,872	
					548,150

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2014

GRANT	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD		EXPENDITURES
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONTINUED)					
Direct Programs (Continued):					
Public Housing - Capital Fund Program:					
Public Replacement Housing Capital Fund	14.872	A-3777 (TN43R00550108)	05-24-2008 to 07-29-16	116,265	
Public Housing Capital Fund	14.872	A-3777 (TN43P00550111)	08-03-11 TO 08-02-15	592,258	
Public Housing Capital Fund	14.872	A-3777 (TN43P00550112)	03-12-12 TO 03-11-16	4,815,235	
Public Housing Capital Fund	14.872	A-3777 (TN43P00550113)	09-09-13 TO 09-08-17	2,561,034	
Public Housing Capital Fund	14.872	A-3777 (TN43P00550114)	05-13-14 TO 05-12-18	650,000	
				8,734,792	
					8,734,792
Shelter Plus Care Program:					
Shelter Plus Care	14.238	TN0068L4J041205	06-28-13 TO 05-31-14	1,001,905	
Shelter Plus Care	14.238	TN0068L4J041306	06-12-14 TO 06-30-15	330,945	
Shelter Plus Care	14.238	TN0070L4J041205	06-01-13 TO 05-31-14	27,570	
Shelter Plus Care	14.238	TN0162C4J041000	08-02-11 TO 11-30-16	13,021	
Shelter Plus Care	14.238	TN0213L4J041200	01-13-14 TO 06-13-17	11,523	
					1,384,964
Supportive Housing Program:					
Supportive Housing Program (HMIS)	14.235	TN006L4J041205	07-01-13 TO 06-30-14	40,980	
Supportive Housing Program (HMIS)	14.235	TN006L4J041306	07-01-14 TO 06-30-15	15,941	
					56,921
Resident Opportunity and Supportive Services Program:					
Resident Opportunity and Supportive Services	14.870	TN005RPS036A012	01-10-14 to 01-09-17	206,677	
Resident Opportunity and Supportive Services	14.870	TN005RPS080A009	07-09-10 to 01-09-14	24,531	
Resident Opportunity and Supportive Services	14.870	TN005RPS235A013	01-08-14 to 03-31-15	54,225	
					285,433

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2014

GRANT	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD		EXPENDITURES
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONTINUED)					
Passed Through Metropolitan Government of Nashville and Davidson County, Tennessee:					
Cluster:					
Community Development Block Grants Program:					
Community Development Block Grants/Entitlement Grants	14.218	B-XX-MC-47-0007	N/A	6,409,773	
Community Development Block Grants/Entitlement Grants	14.218	B-10-MF-47-0002	04-30-2010 to	9,633,106	
Community Development Block Grants/Entitlement Grants	14.218	B-08-MN-47-0004	03-06-09 to	320,256	
					16,363,135
HOME Investment Partnerships Program	14.239	M-XX-MC-47-0203	N/A		2,845,257
Emergency Shelter Grants Program	14.231	E-XX-MC-47-0004	04-01-13 to 03-31-14		430,219
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	TN-HXX-F002	04-01-13 to 03-31-14		796,846
Continuum of Care Homeless Assistance	14.267	TN0211L4J041200	12-17-13 to 12-16-14		39,372
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					101,272,334
TOTAL FEDERAL FINANCIAL ASSISTANCE					$ 101,407,844

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2014

CFDA NUMBER		DESCRIPTION		EXPENDITURES
14.871		Section 8 Housing Choice Vouchers (HCV cluster)	$	45,936,813
14.879		Section 8 Five Year Mainstream Vouchers (HCV cluster)		430,597
14.850	*	Public and Indian Housing		23,419,835
14.267		Continuum of Care Homeless Assistance		39,372
14.872	*	Public Housing Capital Fund		8,734,792
14.218		Community Development Block Grants/Entitlement Grants (CDBG cluster)		16,363,135
14.238		Shelter Plus Care		1,384,964
14.239	*	HOME Investment Partnerships Program		2,845,257
14.241		Housing Opportunities for Persons With AIDS		796,846
81.042		Weatherization Assistance for Low-Income Persons		135,510
14.249		Section 8 Moderate Rehabilitation - Single Room Occupancy		548,150
14.870		Resident Opportunity and Supportive Services		285,433
14.231		Emergency Shelter Grants Program		430,219
14.235		Supportive Housing Program		56,921
		TOTAL FEDERAL FINANCIAL ASSISTANCE	$	101,407,844

*Tested as major programs in the current year.

NOTE A - BASIS OF PRESENTATION

This schedule of expenditures of federal awards includes the federal grant activity of the Metropolitan Development and Housing Agency, and is presented in accordance with accounting principles generally accepted in the United States of America, which is the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.*

NOTE B - SUBRECIPIENTS

Of the federal expenditures presented in the Schedule of Expenditures of Federal Awards, the Agency provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
14.218	Community Development Block Grants/Entitlement Grants (CDBG cluster)	$ 1,802,203

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF ACTUAL COSTS FOR THE SPECIFIED PROJECT

FROM INCEPTION OF THE PROJECT THROUGH COMPLETION

	TN43P005501-11
Funds approved	$ 7,492,187
Funds expended	7,492,187
Excess (deficiency) of funds approved	$ -

The distribution of costs by project as shown on the Performance and Evaluation Report submitted to the Department of HUD for approval is in agreement with the Agency's records.

All costs and related liabilities have been disbursed.

<u>OTHER REPORTS</u>

CPAs & ADVISORS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Commissioners
Metropolitan Development and Housing Agency

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Metropolitan Development and Housing Agency (the "Agency"), which comprise the statement of net position as of September 30, 2014, and the statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 20, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mountjoy Chilton Medley LLP

Jeffersonville, Indiana
January 20, 2015

CPAs & ADVISORS

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance

To the Board of Commissioners
Metropolitan Development and Housing Agency

Report on Compliance for Each Major Federal Program

We have audited the Metropolitan Development and Housing Agency's (the "Agency's") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended September 30, 2014. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

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Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance (Continued)

Opinion on Each Major Federal Program

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Report on Internal Control over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Monroe Shine Chilton Medley LLP

Jeffersonville, Indiana
January 20, 2015

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

SECTION I - SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	___yes _x_ no
Significant deficiency(ies) identified not considered to be material weaknesses?	___yes _x_ none reported
Noncompliance material to financial statements noted?	___yes _x_ no

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	___yes _x_ no
Significant deficiency(ies) identified not considered to be material weaknesses?	____yes _x_ none reported
Type of auditors' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	___yes _x_ no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster	
14.850	Public and Indian Housing	$23,419,835
14.872	Public Housing Capital Fund	$8,734,792
14.239	HOME Investment Partnerships Program	$2,845,257

Dollar threshold used to distinguish between Type A and Type B programs: $3,000,000

Auditee qualified as low-risk auditee? __X__yes ____ no

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

Item 2013-01 - Public Housing Waitlist - Significant Deficiency

Public and Indian Housing Program (CFDA #14.850)

Condition:
Five Public Housing Program applicants out of twenty-five applicants tested were ranked on the wait list in an incorrect order. This was due to the fact that those applicants were not properly awarded preferences in accordance with MDHA's Admissions and Continued Occupancy Policy. Further, documentation could not be provided to show that three applicants who should have been offered housing in April 2012 actually received offers.

Recommendation:
MDHA should improve controls around the wait list process to ensure all applicants are added to the wait list and offered housing in accordance with their Admissions and Continued Occupancy Policy. We recommend that the Director of Asset Management or another supervisory individual review a sample of applicants added to the wait list each month to help ensure that all properties have proper controls in place to ensure applicants are being added to the wait list based upon their actual preferences. Further, we recommend that all unit offers be documented either within the Yardi system or within the applicant's pre-application file.

Status:
Effective August 1, 2013, the Agency implemented a lottery application system and established Agency-wide application pools. The Agency has determined that continued use of preferences is cumbersome and that utilizing a lottery number is the most equitable method of determining position on the pool. Based on the tests performed, controls were implemented to ensure that all offers of housing units were properly documented. This finding has been cleared.